BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 2018-318-E

In the Matter of:	)	
	)	**APPLICATION OF DUKE ENERGY**
Application of Duke Energy Progress,	)	**PROGRESS, LLC FOR**
LLC for Adjustments in Electric Rate	)	**ADJUSTMENTS IN ELECTRIC**
Schedules and Tariffs	)	**RATE SCHEDULES AND TARIFFS**
	)	**AND REQUEST FOR AN**
	)	**ACCOUNTING ORDER**

Pursuant to S.C. Code Ann. Sections 58-27-820 and 58-27-870, and 26 S.C. Code Ann. Regs. 103-303 and 103-823, Duke Energy Progress, LLC ("DE Progress" or "Company") hereby notifies the Public Service Commission of South Carolina ("Commission") of proposed changes in its rates, charges, and tariffs filed for electric service and respectfully requests that the proposed rates, charges, and tariffs filed with this Application be approved by the Commission and determined to be effective on June 1, 2019. In support of this Application, DE Progress would respectfully show unto the Commission the following:

1. The Commission and the South Carolina Office of Regulatory Staff ("ORS") were notified on October 8, 2018, as was the South Carolina Department of Consumer Affairs, of the Company's intent to file this application pursuant to the provisions of S.C. Code Ann. Section 58-27-860.

2. The correct name and post office address of DE Progress is:

Duke Energy Progress, LLC
410 South Wilmington Street
Raleigh, North Carolina 27601-1849

3. Legal counsel for Duke Energy Progress in this proceeding are as follows:

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and

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4. Copies of all pleadings, testimony, orders and correspondence in this proceeding should be served upon the attorneys listed above.

5. DE Progress is (1) a limited liability company duly organized and existing under the laws of the State of North Carolina; (2) duly authorized by its Articles of Organization to engage in the business of generating, transmitting, distributing, and selling electric power and energy; (3) a public utility under the laws of the State of South Carolina, and in its operations in this State is subject to the Commission's jurisdiction over Duke Energy Progress' rates, charges, tariffs, and terms and conditions of service as generally provided in S.C. Code Ann. Sections 58-27-10 *et seq.*; (4) a public utility under the laws of the State of North Carolina, and its operations in that state are subject to the jurisdiction of the North Carolina Utilities Commission; and (5) a public utility under the Federal Power Act, and certain of its operations are subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC"). DE Progress' service territory covers approximately 32,000 square miles, including an area in the northeastern portion of South Carolina, a substantial portion of the coastal plain of North Carolina extending from the Piedmont to the Atlantic coast between the Pamlico River and the South Carolina border, the lower Piedmont section of North Carolina, and area in western North Carolina in and around the city of Asheville. The Company supplies retail electric service to approximately 1.5 million retail customers in its service area. Approximately 170,000 of those retail customers are in South Carolina. During the twelve month period ending December 31, 2017 (the "Test

Period"), DE Progress' electric revenues amounted to approximately $5.1 billion, of which approximately 11 percent was derived from South Carolina retail jurisdictional customers.

6. The current rates now in effect, excluding riders and changes in the fuel cost component, were approved in Commission Order No. 2016-871, *Order Approving Increase in Rates and Charges and Settlement Agreement*, in Docket No. 2016-227-E (the "2016 Rate Case"). The appropriate Test Period for purposes of this Application is the twelve-month period ending December 31, 2017.

BRIEF SUMMARY OF APPLICATION AND COMPANY'S REQUEST

7. Recent work to modernize the electric system, generate cleaner power, responsibly manage and close coal ash basins, and continually improve service to customers have made it necessary for DE Progress to request a net increase in its retail revenues of approximately $59 million[1], which represents an approximate overall 10.3 percent increase in annual revenues, to be updated to account for known and measurable expenses for grid investments of approximately $5.1 million in 2020 and $ 5.8 million in 2021. This request also includes $10 million in net tax benefit resulting from the Federal Tax Cuts and Jobs Act ("TCJA").

8. As proposed, a typical residential customer using 1,000 kWh will see an increase of approximately $17.91 per month beginning with the rate effective date in this case, requested to be June 1, 2019, and then increased by an additional $1.60 per month beginning June 1, 2020 and an additional $1.81 per month beginning June 1, 2021, to

[1] The net annual revenue increase includes the impact of the return of deferred income taxes through the EDIT Rider of approximately $10 million, as discussed below.

incorporate costs for grid investments in the Grid Improvement Plan described below.[2]

9. DE Progress also proposes modification of certain rate schedules to reflect more accurately its cost of service. The Company proposes an increase in the fixed monthly customer charges to recover the basic fixed cost of providing electric service that is not dependent upon customer usage. DE Progress has proposed, supported by costs to serve and consistent with the basic charges in place for many utilities in South Carolina, an increase in the Residential Basic Facilities Charge from $9.06 to $29.00 per month effective June 1, 2019. This means that customers would be paying approximately $0.95 cents per day for facilities in place to serve them, regardless of how much electricity is used. The increase in the Residential Basic Facilities Charge is not additive to the rate increase requested in this case. Rather, this is a change in the manner in which the Company collects its costs. The Company proposes to collect fixed costs through the fixed monthly charge based on the cost to serve instead of the variable, volumetric energy rate. The Company's requested fixed monthly charge is comparable to the fixed monthly charge established by many other electricity providers in the State. More details on the proposed increase in the fixed monthly basic facilities charge may be found in the testimony of Witnesses Hager and Wheeler's testimony being filed today along with this Application.

10. The Company's request is driven by capital investments and environmental compliance progress made by the Company since the 2016 Rate Case, including the further implementation of DE Progress' generation modernization program, which consists of retiring, replacing and upgrading generation plants; investments in customer service

[2] The calculation of the bill impacts incorporate the most recently approved fuel cost factors in effect through June 2019 previously approved in Docket No. 2018-1-E.

technologies; and the Company's continued investments in base work to maintain the Company's transmission and distribution ("T&D") systems. The Company's investments also include costs associated with the ongoing deployment of the Company's new billing and Customer Information System ("CIS") (known as "Customer Connect"); the ongoing deployment of AMI infrastructure, including smart meters; nuclear development; environmental compliance with new regulations, particularly costs relating to the management and storage of coal combustion residuals, including fly ash, bottom ash, and flue gas desulfurization byproducts; and other costs incurred by DE Progress in providing safe, reliable and high quality power to South Carolina customers.

11. The Company also proposes, in this Application, its Grid Improvement Plan for approval by the Commission. The Grid Improvement Plan, attached to Witness Oliver's testimony as Exhibit 9 and incorporated herein by reference, is a long-term initiative, and the Company has provided a three-year plan built upon strategic, data-driven investments to improve reliability to avoid outages and speed restoration; harden the grid to protect against cyber and physical threats; expand solar and other innovative technologies across a two-way, smart-thinking grid; and give customers more options and control over their energy use and tools to save money. As explained by Witness Oliver, these investments will provide benefits now and in the years to come. More details about the Grid Improvement Plan are contained later in this Application.

12. The Company is also seeking approval of a Prepaid Advantage Pilot to allow for DE Progress customers to avail themselves of a prepayment plan that can eliminate the need for deposits. Further, as discussed later in this Application, DE Progress is also requesting that credit card fees be included in rates for residential customers, thereby

removing the credit/debit card fee for eligible residential customers enrolling in Prepaid Advantage.

13. Additionally, the Company is seeking a variety of accounting orders in this Application related to ongoing costs for environmental compliance, advanced metering infrastructure ("AMI") deployment, grid investments between rate changes, and regulatory asset treatment related to the retirement of a generating plant located in Asheville, North Carolina. Finally, the Company seeks approval to establish a reserve and accrual for end of life nuclear costs for materials and supplies and nuclear fuel.

DETAILED INFORMATION ABOUT THE COMPANY'S REQUEST

14. Major investments in generating plant additions and plant-related expenses, investments in the grid and metering systems, changes in depreciation rates as well as a new billing system, account for a significant portion of this case. Additionally, since its last rate case, DE Progress has invested heavily in state-of-the-art technology and environmental equipment to reduce emissions. Accordingly, the Company seeks an increase in revenues of approximately $38 million for capital additions incurred since its last rate case through December 31, 2018. Some of the major additions are described below.

15. The Company's request includes the recovery of deferred compliance costs associated with state and federal environmental compliance requirements related to Coal Combustion Residuals ("CCR"). In particular, DE Progress seeks to recover costs incurred and deferred since July 1, 2016 through December 31, 2018 to comply with federal and state requirements related to CCRs.[3] To mitigate rate impacts to customers, the Company request

[3] Docket No. 2016-196-E, Order No. 2016-490 (July 13, 2016).

to recover these previously incurred expenses over a five year period.[4] This case also includes the amortization of regulatory assets over time related to smart meters;[5] investments necessary to implement Customer Connect;[6] ongoing grid investments;[7] rate changes from the most recent depreciation study;[8] nuclear development costs for the nuclear development work completed for the Harris nuclear site;[9] compliance with NRC requirements in response to cybersecurity requirements and events at the Fukushima Daiichi Nuclear Power Station in Japan;[10] and the deferred costs associated with the exploration, along with other utilities in the state, of a Regional Transmission Organization.[11] Witness Bateman provides detail regarding these deferral balances and the requested amortization. As mentioned previously, the costs described herein are partially offset by the return of deferred federal tax liability to customers.

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[4] This case excludes any fines or penalties incurred by DE Progress related to ash basin closure or management.

[5] In Docket 2018-205-E, the Company petitioned for approval to defer into a regulatory asset account the return and depreciation on the capital costs at its weighted average cost of capital. The Commission approved the Company's petition on August 9, 2018 in Order No. 2018-553 (2018). The Company is seeking recovery of the deferred costs over a three-year period.

[6] In Docket 2018-205-E, the Company petitioned for approval to defer into a regulatory asset account the incremental O&M expense associated with the deployment of the Customer Connect program. The Commission approved the Company's petition on August 9, 2018 in Order No. 2018-553 (2018). The Company is seeking recovery of the deferred costs over a three-year period including a net of tax return on the unamortized balance of the regulatory asset.

[7] In Docket 2018-206-E, the Company petitioned for approval to defer into a regulatory asset account costs incurred in connection with grid reliability, resiliency and modernization work in a regulatory asset account until the time the costs are reflected in the new rates from this proceeding. The Commission approved the Company's petition on October 3, 2018. The Company is seeking recovery of the deferred costs over a two-year period including a net of tax return on the unamortized balance of the regulatory asset.

[8] In Docket 2018-205-E, the Company petitioned for approval to defer into a regulatory asset account the incremental depreciation expense resulting from the new depreciation rates. The Commission approved the Company's petition on August 9, 2018 in 2018-553 (2018). The Company is seeking recovery of the deferred costs over a three-year period.

[9] Docket No. 2013-472-E, Order No. 2016-36 (January 20, 2016).

[10] Id.

[11] Docket 2001-139-E.

16. The Company's request is necessary to pay for investments that build a cleaner, more reliable and smarter energy future in South Carolina. Since its last rate case, DE Progress has invested approximately $201 million in reducing the Company's environmental footprint by adding state-of the-art technology and environmental equipment to reduce emissions. The Company recently added two new combustion turbines ("CTs") for the Sutton Combined Cycle generation facility at the Sutton Energy Complex in July 2017, which provides an additional 78 MWs of capacity to the Company's fleet. The Company's investment in this project totaled $101 million. The new Sutton CTs feature state-of-the-art technology for increased efficiency and reduced emissions, blackstart and fast start capabilities, and provide offsite power to Brunswick Nuclear Station. DE Progress also made capital additions at Roxboro Station to convert to a dry bottom ash system to comply with the Coal Combustion Residual Rule ("CCR"), totaling approximately $100 million. More detail on these costs may be found in the testimony, including that of Witness Joseph A. Miller, being filed today along with this Application.

17. To bring more value to customers, including giving customers more choice, convenience and control over how they use electricity and how they can save more money, the Company is seeking recovery of both its deferred costs[12] and approximately $1 million annually for operating and maintenance costs associated with implementing Customer Connect, which will replace the Company's current CIS system. At 30 years old, the Company's current CIS system is no longer supported or upgradeable, and is unable to continue to be fully integrated into Duke's other systems. The new system will also be

[12] See *supra* n. 6.

complementary to future technology, and includes the ability to interface with new smart meters to enable customers to more easily start and stop service, ask questions about their bills, view their usage, and allow the Company to identify the optimal rate plan for each customer when asked.

18. To bring customers additional choices and insight on their usage, the Company has begun a full roll-out of AMI technology in its service territory in South Carolina. AMI is the foundational investment that will enable enhanced customer solutions – giving customers greater control, convenience and choice over their energy usage, while also giving customers the opportunity to budget, save time and save money. AMI technology allows a utility to gather more granular usage data and utilize new capabilities to offer programs, products and services to customers that are not achievable through existing meters, which are drive-by meters. The data, when combined with the new Customer Connect CIS when deployed and referenced in Witness Hunsicker's testimony, will lead to expanded options and flexibility in supporting enhanced customer services and programs. The AMI technology will pave the way for programs that will allow customers to stay better informed during outages, control their due dates, avoid deposits, to be reconnected faster, and to better understand and take control of their energy usage, and ultimately, their bills.

19. Over time, the Company also expects AMI meters to contribute to cost reductions from reduced truck rolls in the years after deployments. DE Progress has approximately 38,000 smart meters currently installed, and the next phases of deployment will replace the Company's remaining approximately 128,000 older technology meters with smart meters. These meters for South Carolinians are being

manufactured by South Carolinians by Itron Inc. in Oconee County, South Carolina. This application includes recovery of the deferred balance over a three-year period resulting in an annual revenue requirement of less than $1 million. The Company also seeks an accounting order below for costs for the remaining deployment of AMI occurring after this case.

20. The Company's request also contains compliance costs incurred since July 1, 2016[13] through December 31, 2018 associated with state and federal environmental compliance requirements related to Coal Combustion Residuals ("CCR"). The Company is requesting recovery of its deferred costs through an amortization expense of $10 million over 5 years plus a return on the deferred balance of $3 million for a total annual revenue requirement of $13 million. Like other utilities around the country similarly affected by such regulation, DE Progress has begun the process of closing, or submitting plans to close, ash basins in accordance with these regulations and requirements. Additionally, the Company is adding dry ash and Flue Gas Desulfurization ("FGD") blowdown handling systems to coal-fired plants that are not already so equipped. DE Progress is also modifying its entire active and decommissioned coal-fired plants to divert storm water and low volume waste water away from the basins. The nature of these costs is described in more detail in Witness Kerin's testimony.

21. Additionally, the Company expects to continue to invest significant amounts related to CCR environmental compliance after the December 2018 cut-off in this case.

[13] In the 2016 Rate Case, the Commission approved the continuation of the ongoing deferral treatment of ash basin closure costs continue to defer ongoing coal ash basin closure costs incurred since the Company's last rate case, offset by the ongoing cost of removal amounts in a regulatory asset account, until the Company's next rate case. Order No. 2016-871 at 37 (December 21, 2016).

Accordingly, instead of requesting recovery of an ongoing level of these costs in this case, the Company is requesting the Commission approve a continuation of the deferral of CCR compliance-related costs, similar to what it approved in the 2016 Rate Case, for costs not included in this case. Specifically, the Company is requesting approval to defer coal CCR compliance spend related to ash basin closure beginning January 1, 2019, the depreciation and return on CCR compliance investments related to continued plant operations placed in service on or after January 1, 2019, and a return on both deferred balances at the overall rate of return approved in this case. No fines or penalties associated with coal ash basin closure are being sought for recovery in this case. The Company also requests an accounting order related to these costs below.

22. This rate increase is further necessary to enable DE Progress to maintain its current financial position in light of those significant capital expenditures undertaken to meet its customers' needs. In addition to modernizing its generating fleet and closing ash basins, the Company is committed to making South Carolina's air and water cleaner by making its grid smarter to allow distributed and small source renewables like rooftop solar. The investments described by the Company to modernize its generation portfolio and electric infrastructure, to comply with certain environmental requirements associated with ash basin closure, and to invest in modernizing the Company's CIS systems are not currently reflected in DE Progress' rates. As such, the Company's current rates are not providing sufficient revenues for the Company to meet its day-to-day operating expenses and also provide its investors with reasonable returns on their investments of needed capital.

23. The Company needs to be financially sound to continue providing the service customers expect, including making substantial capital investments to replace aging

and retired infrastructure, to comply with environmental requirements and to invest in new, more efficient technologies (e.g., digital automated technologies on the grid). The Company is deploying smart meter technology as well as investing billions in grid infrastructure over the next decade in South Carolina, improving the performance and capacity of the grid, making it smarter and more resilient and give customers greater convenience, control and choice over their electricity usage. Accordingly, the Company needs to remain financially strong to make such investments and to continue providing reliable electricity at reasonable rates. Therefore, it is imperative that the Company be attractive to the financial community to access the capital it needs on reasonable terms for the benefit of customers, as explained in detail in the Company's pre-filed direct testimony.

24. The opportunity for the Company's investors to earn a fair and reasonable return on equity will help ensure access to capital markets on reasonable terms. In his pre-filed direct testimony in this case, the Company's cost of capital expert Witness Hevert recommends that DE Progress be authorized to provide investors a 10.75 percent return on equity ("ROE") based upon a proposed capital structure containing 53 percent equity and 47 percent debt. The Company fully supports witness Hevert's testimony and analysis. However, as described in the testimony of Witness Sullivan, as a rate mitigation measure, and in recognition that a rate increase may create hardship for some customers, the Company has proposing setting rates at a 10.50 percent ROE.

25. DE Progress' most important objective is to continue providing safe, reliable, affordable and increasingly clean electricity to customers with high quality customer service, both today and in the future. The Company's systems and programs are complex and are subject to: (a) the continuously evolving needs of its increasingly diverse

customer base; (b) ever-increasing federal, state and local laws, regulations and ordinances; (c) the physical demands placed on its systems through extended historic use and natural causes; and (d) the need to invest in this critical infrastructure to power the lives of customers and the vitality of the communities served by DE Progress. This proposed rate adjustment is made to support investments that benefit the Company's customers. DE Progress strives to ensure that those investments are made in a cost-effective manner that retains the level of service and competitive rates for customers. The Company relies on a variety of fuel sources to generate power and has prudently managed its operating costs. This fuel diversity allows DE Progress to choose how to generate electricity – day by day, hour by hour – based on the cost of the fuel needed to run its different plants. DE Progress has managed its costs through continuous improvement to its operations (thereby benefitting customers through efficiency-derived controlled costs) as well as through significant cost containment policies and activities described in the Company's pre-filed direct testimony in this case.

26. The Company has committed considerable resources, as explained in the testimony of witnesses in this case, to mitigate the customer impacts of the costs requested for recovery in this case. The Company has donated millions of dollars to assist low-income customers with their electric bills, facilitated customer access and awareness of agencies and programs that can help them pay their bills or manage their ability to maintain electric service and implemented programs to give customers a variety of payment options. The Energy Neighbor Fund is a good example of an assistance program for DE Progress customers in need, helping low-income individuals and families cover home energy bills. Over the life of the Energy Neighbor Fund program, it has provided

approximately $3.2 million to DE Progress' South Carolina customers. Most importantly, DE Progress has saved customers' money by operating efficiently and managing costs and its excellent operational performance translates into lower fuel bills and reliable service. The Company also offers optional bill management programs designed to assist eligible customers in either managing fluctuations in their monthly bill or who are having difficulty paying their entire bill by the due date.

27. The Company also remains committed to energy efficiency ("EE") and demand side management ("DSM") programs, as well as innovative rate designs to allow customers to better manage their electric usage, and as a result, their bills. Through EE, DE Progress saves its customers in the Carolinas over 1.7 billion kWh annually, or over $170 million, which is about four percent of total retail kWh sales. Combined, its EE and DSM programs offset capacity requirement by the equivalent of over four power plants.

28. DE Progress' requested rate increase is necessary and justified. The Company strives every day to contain costs and continually apply downward pressure to operation and maintenance expenses so that rate increase requests are no more frequent than they need to be. This request reflects investments the Company has made—and is still making—to comply with existing state and federal environmental and other regulatory requirements and to upgrade and modernize its generation and power delivery systems. The Company is also committed to maintaining its operational focus through the proposals included in this case.

FEDERAL TAX REDUCTION BENEFITS INCLUDED IN THIS REQUEST

29. The Company's requested increase includes a proposal to flow back to customers excess deferred income taxes ("EDIT") and deferred revenue resulting from the

impact of the federal tax reform legislation, the TCJA, on utility operations. On December 28, 2017, the Office of Regulatory Staff ("ORS") filed a petition in Docket No. 2017-381-A requesting that the Commission order all investor-owned utility companies to report the impact of the TCJA on each company's operations. At its April 25, 2018 meeting, the Commission decided that the effects of the Act should be addressed in each utility's next rate case and directed each utility to defer as a regulatory liability (1) all excess accumulated deferred income tax balances created in 2017 by the TCJA, and (2) the estimated difference between customer revenues actually billed and what would have been billed taking into effect the reduced corporate tax rate beginning January 1, 2018. See Order No.2018-308 (April 25, 2018).[14]

30. As Witness Panizza explains in his pre-filed testimony being filed today along with this Application, the TCJA provides the most extensive changes to the internal revenue code in over thirty years and provides the Commission and utilities opportunity to help reduce and smooth out customer rates over the short-and longer-term. However, these benefits to customers should also be balanced with ensuring the Company is able to maintain the same financial strength it had prior to the Act's passage, a financial strength that has helped the Company to keep customers' rates well below the national average. The Company believes its proposal provides appropriate near- and longer-term solutions that will lower customers' bills immediately and help offset future rate increases.

31. One change Witness Panizza discusses from the TCJA is the reduction in the corporate income tax rate from 35 percent to 21 percent. As described in the pre-filed

[14] Previously, in joint comments submitted by DE Carolinas and DE Progress on January 24, 2018 and April 12, 2018, the companies already committed to establishing deferral accounting for the balances subsequently identified by the Commission.

testimony of Witness Bateman, the Company has incorporated into the base rate revenue requirements in this case the reduction in the tax rate. For the remaining benefits of the TCJA, the Company is proposing to create an EDIT rider to flow back to customers, outside of base rates, the following five categories of benefits to customers: (1) Federal EDIT – Protected; (2) Federal EDIT – Unprotected, Property Plant and Equipment ("PP&E") related; (3) Federal EDIT – Unprotected, non PP&E related; (4) Deferred Revenue; and (5) North Carolina EDIT. The Company proposes to reduce the balances the Company has accrued in these categories by $13 million to offset the balance accrued for Distributed Energy Program ("DERP") costs that have yet to be recovered and were most recently the subject of Docket No. 2018-1-E. More information on the TCJA deferral amounts, less the DERP balances, may be found in the testimony of Witnesses Bateman and Ward being filed today.

REQUEST FOR APPROVAL OF CUSTOMER OFFERINGS FOR PREPAID ADVANTAGE AND "NO-FEE" CREDIT CARD PAYMENTS

32. The current deployment of AMI technology in DE Progress' service territory enables the Company to offer new programs that rely on AMI to customers. Accordingly, in accordance with S.C. Code Ann. § 58-27-250(c), the Company seeks approval to launch a Prepaid Advantage Program Pilot ("Prepaid Advantage" or the "Pilot") for DE Progress in South Carolina in late 2019. Prepaid Advantage is designed for residential customers on non-time of use rate schedules, where the Company has installed AMI technology at the residence. The Pilot will be similar to the Prepaid Advantage Program Pilot approved by the Commission for the Company's affiliate, DE Carolinas, in Docket No. 2015-136-E. Eligible customers will be able to:

(1) begin service with a lower up front cost, avoiding a traditional deposit if one would otherwise be required;

(2) see usage and electricity costs on a daily basis from anywhere via the web or a Smartphone;

(3) have more choice in payment options, giving the customer the flexibility to determine when to pay and how much based on the customer's lifestyle and receipt of income:

(4) potentially avoid bill surprises at the end of an unusual weather month; and

(5) have service reconnected fast through remote capability if service is disconnected.

As discussed in Witness Schneider's testimony, the Company respectfully requests a partial waiver of Rule 103-352, *Procedures for Termination of Service,* with respect to timing, the delivery method, and the information provided on any notice of disconnection and payment arrangements would not be offered for participating customers.

33. The Company's request also includes a proposal to offer a fee-free payment program for all payment methods the Company offers, including credit and debit cards, to its residential customers to pay their electric bill. Currently, customers are required to pay a convenience fee, collected by a third-party vendor, for payments made by a credit or debit card or a one-time Automated Clearing House (ACH) payment via phone or on the Company's website. The Company believes residential customers should not be charged a convenience fee for payments made through any of its payment channels. The requirement to pay a convenience fee when making a payment is one of the largest frustrations customers experience. Customers have grown accustomed to paying for other products and services with a credit or debit card without a separate, additional fee. Therefore, to offer this program, the Company proposes to pay these costs on behalf of its residential customers and recover these costs as part of its cost of service.

More details on the Company's proposal are included in the pre-filed direct testimony of Witnesses Ghartey-Tagoe and Bateman.

GRID IMPROVEMENT PLAN

34. The Company also proposes, in this Application, its Grid Improvement Plan for approval by the Commission. The Grid Improvement Plan is a long-term initiative, and the Company has provided its multi-year plan built upon strategic, data-driven investments to improve reliability to avoid outages and speed restoration; harden the grid to protect against cyber and physical threats; expand solar and other innovative technologies across a two-way, smart-thinking grid; and give customers more options and control over their energy use and tools to save money. The Company proposes additional rate changes in 2020 and 2021 to reflect the remaining years of the multi-year plan, with costs captured in a regulatory asset for recovery between rate changes. As explained by Witness Oliver in his testimony, these investments will provide benefits now and in the years to come.

35. From routine, day-to-day activities to powering high-tech manufacturing, the electric power grid is the backbone of South Carolina's digital economy; – not just today, but also 5, 10, 20 years in the future. As recent events have reinforced, the Company must be ready for severe weather before it strikes, and reduce the impact of storms that are worsening in frequency and intensity. DE Progress must be vigilant and prepare now for the very real threat of cyber and physical attacks. DE Progress also needs to provide more options for customers to allow more control over the way they use electricity. And as renewable energy technologies like solar energy, battery storage, micro-grids and electric vehicles become more affordable and accessible; the Company needs to take steps now to ready the grid to support the growth of these technologies that are important to South

Carolina's energy future.

36. The Grid Improvement Plan addresses all of these needs, while also managing costs. This Grid Improvement Plan was built using advanced data analytics that helped identify strategic opportunities for improvement. It also incorporates extensive input from customers, customer and advocacy groups and others who helped to refine this plan to better serve their energy needs and the needs of our state. The Grid Improvement Plan includes investments designed to strengthen the grid and mitigate the impact of major storm events, as well as to harden and defend the grid against critical physical and cybersecurity risks. Examples of the Company's multi-layered improvements designed to protect the grid include: updating grid technology including monitoring and communication equipment; installing protective devices to limit access to critical systems and minimize outages from physical or cyber-attack; and relocating, raising or reinforcing equipment in flood-prone areas.

37. The Grid Improvement Plan also helps modernize the grid. Technology is rapidly changing, and the Company must do more to incorporate and anticipate new technology to better serve a growing state. Customers deserve the same options from their electric utility that they can receive from other service providers, such as self-selecting billing and payment dates, scheduling appointments, and accessing real-time usage data and information updates when outages occur. These are all examples of basic services consumers expect but require technology to deliver. And increasingly, consumers desire access to information about how they use energy and tools to take control of that energy use and save money. Examples of improvements designed to modernize the grid include: distribution automation and dispatch tools to improve power quality and reliability, and

support the growth of distributed energy resources and customer-owned technologies, integrated system operations planning, automation and system intelligence, to prepare the grid for increased distributed resources and the dynamic power flows that these technologies bring. These technologies, proposed in the Grid Improvement Plan, will interact with Smart Meters to bring our service into the 21st century.

38. The Grid Improvement Plan optimizes the total customer experience and transforms the grid to prepare it for the energy opportunities that lie ahead. Optimization upgrades in the grid improvement plan include: a self-optimizing, smart-thinking grid that anticipates outages and automatically reroutes service to keep power on for customers. Self-optimizing technology can reduce outage impacts on customers by as much as 75 percent. It will also provide the foundation for the two-way power flows needed to support more rooftop solar, battery storage, electric vehicles and microgrids – technologies that will increasingly power the lives of customers. Investments also include expanded energy storage capabilities and infrastructure, which will help to power self-optimizing technologies in areas where building a redundant power line may not be feasible. It includes additional electric vehicle charging infrastructure improvements to expand transportation options for customers across the state, as well voltage optimization and distribution of power to customers to improve reliability, increase system intelligence and support the two-way power flow needed to grow distributed resources.

39. In addition to these improvements, the Company must also have the right skill sets available at the scale necessary to bring about this important transformation. That means recruiting thousands of new contractors and employees, expanding training for our existing workforce and thinking ahead to future needs as we move through this multi-year

initiative.

40. To provide better visibility regarding the Company's plans and investments, the Company has undertaken Grid Improvement Plan Workshops with interested stakeholders, and those conversations have informed the Company's request. One of the requests from these workshops is to have investments considered by the Commission. Accordingly, the Company proposes a three-year view of its Grid Improvement Plan (as incorporated by reference from the testimony of Witness Oliver), including projects and investments for the Commission's approval, as well as a multi-year rate plan that allows for pre-defined, step-up rate changes for grid investments in Phase 1, Year 2020, and Phase 2, Year 2021, to correspond with the annual progress on the Grid Improvement Plan in each year. After such time, the Company would need to seek authority for future increases related to grid, repeating the process for Commission consideration for future investments for grid investment.

41. The proposed Phase 1 and Phase 2 rate changes will best support the Company's cash flows as it implements the grid improvements detailed in the Grid Improvement Plan. Additionally, the Company is willing to file quarterly status reports to apprise stakeholders of the progress and expenditures made on the Grid Improvement Plan. The Company also commits to a 60-day audit, during which time the ORS and interested parties could review the costs incurred relative to the Grid Improvement Plan ultimately approved in this case. The Company proposes to file the information for the prior year for auditing purposes by March 1, 2020 and March 1, 2021, as explained in further detail by Witnesses Bateman and Oliver, to allow for such audit, as well as notice the opportunity for hearing if requested by an interested party.

REQUEST FOR ACCOUNTING ORDER

42. As part of this Application, the Company requests an accounting order for approval to: (i) continue the deferral for coal ash basin closure compliance costs after the cut-off date for this rate case; (ii) establish a regulatory asset at the time of the Asheville plant's retirement for the remaining net book value, and permission to defer to this regulatory asset any costs related to obsolete inventory, net of salvage, at the time of retirement; (iii) continue the deferral for ongoing costs incurred in connection with the deployment of AMI in-service after December 31, 2018; (iv) continue the deferral for ongoing Grid Improvement costs until such costs are included in customer rates either through the Phases 1 and 2 rate changes or a future rate case, or if the Commission does not approve Phases 1 and 2 rate changes then, in the alternative, it approve the deferral of ongoing Grid Improvement costs until the Company's next rate case; and (v) establish reserves for end of life nuclear costs and to begin accruing for the expense related to materials and supplies and a portion of the last core of nuclear fuel in the reactor at the end-of-life of its nuclear generating plants.

43. DE Progress requests an accounting order for the continued deferral of coal ash basin compliance costs after the December 2018 cut-off in this case. Instead of requesting recovery of an ongoing level of these costs in this case, the Company is requesting the Commission approve a continuation of the deferral, similar to what it approved in the 2016 Rate Case for costs not included in this case. Specifically, the Company is requesting approval to defer CCR compliance spend related to ash basin closure beginning January 1, 2019, the depreciation and return on CCR compliance investments

related to continued plant operations placed in service on or after January 1, 2019, and a return on both deferred balances at the overall rate of return approved in this case.

44. The Company requests an accounting order for approval to establish a regulatory asset related to the retirement of the Company's Asheville coal plant. Originally, the Company's depreciation consultant, Gannett Fleming, had proposed new depreciation rates that would fully depreciate the Asheville coal plant by its expected retirement date in 2020. To mitigate the impact on customers, DE Progress asked the consultant to adjust the rates to reflect a recovery of the remaining net book value of the Asheville coal plant over a ten-year period, similar to the treatment of other coal plants that were retired early in DE Progress' prior depreciation study. Since under this approach, the net book value of the plant will not be fully recovered at the time of retirement, the Company is requesting permission to establish and include in rate base a regulatory asset at the time of the plant's retirement for the remaining net book value and the ability to continue amortizing the costs over the remaining portion of the ten-year period at that time. The Company also requests permission to defer to this regulatory asset any costs related to obsolete inventory, net of salvage, at the time of retirement.

45. DE Progress requests an accounting order for approval to defer the financial effects of the incremental O&M expense and the depreciation expense incurred for AMI meters installed after December 31, 2018, and the carrying costs on the investment and the deferred costs at its weighted average cost of capital. The deferred costs to be recorded on the Company's accounting records will be based on actual costs. Without the accounting treatment requested by the Company, these costs will impact the Company's financials on a project by project basis through the deployment program; accordingly, unlike capital

projects of similar financial magnitude, the Company will not recover its time value of money in the form of allowance for funds used during construction. Instead, the Company's earnings are impacted every time a project is completed as it creates an instant degradation to the Company's financials. This deferral will allow the Company to bridge this timing gap until the Company's next rate case in a manner similar to AFUDC accounting.

46. DE Progress also requests an accounting order for approval to defer costs associated with the incremental grid investments placed in service after December 31, 2018, until those costs are included base rates, either through the Phase 1 or 2 rates or a subsequent general rate case, incurred in connection with the Grid Improvement Plan. Specifically, the Company seeks to defer the incremental O&M, depreciation expense and property taxes associated with the capital assets installed as part of its Grid Improvement Plan, as well as the carrying cost on the investment and on the deferred costs at the Company's weighted average cost of capital. The Company proposes to recover the deferred costs in accordance with its proposed three-year rate plan request, allowing for pre-defined rate changes, Phases 1 and 2, for these investments in 2020 and 2021, respectively. For any costs not included in the Phase 1 or Phase 2 rate changes, the Company would continue deferral until its next rate case. In the alternative, if the Commission does not approve the Company's three-year rate plan request, the Company asks the Commission to approve the ongoing deferral of Grid Improvement Plan costs until the Company's next rate case. Without this accounting treatment, costs incurred for grid improvement will negatively impact the Company's financials on a project by project basis since they would not be captured in rates, and unlike capital projects of similar financial magnitude, the Company's will not have the opportunity to fully capture these costs absent the requested deferral.

47. DE Progress requests an accounting order for approval to establish a reserve for end of life nuclear costs. Currently, there are some end-of-life costs at a nuclear plant that are not captured in a decommissioning study (e.g., the expense to write off the materials and supplies in inventory at the time of decommissioning that have little or no salvage value). The Company is proposing to create a reserve to start accruing for these end-of-life expenses and, therefore, create a better matching of cost and benefit for ratemaking purposes. The annual accrual amount will be determined by dividing the projected inventory balance at the end of each unit's life by the number of years remaining in the unit's life and summing this result for the Company's three nuclear plants. In this proceeding, the Company is requesting an annual accrual amount of approximately $2.2 million as allocated to South Carolina retail. The annual accrual amount can be reviewed and adjusted, if needed, in each future general rate case before the end of the plant's life. The Company is also proposing to create a reserve to start accruing for the expense related to a portion of the last core of nuclear fuel in the reactor at the end-of-life of its nuclear generating plants and, therefore, create a better matching of cost and benefit for ratemaking purposes. The annual accrual amount will be determined by dividing the projected remaining value of the last core of nuclear fuel at the end of each unit's life by the number of years remaining in the unit's life and summing this result for the Company's three nuclear plants. In this proceeding, the Company is requesting an annual accrual amount of $0.7 million as allocated to South Carolina retail. The annual accrual amount can be reviewed and adjusted, if needed, in each future general rate case before the end of the plant's life. The reserves, once they are created, will be included as an offset to rate base in the cost of service.

REQUESTED RATES

48. Copies of the rates now in effect are attached as **Exhibit A**. The proposed schedules of rates and charges, attached to this Application as **Exhibit B**, are filed in accordance with the provisions of S.C. Code Ann. §§ 58-27-860, 865, 870. The proposed rates set forth in **Exhibit B** include a base combined fuel, environmental and the Public Utility Regulatory Policies Act ("PURPA") purchase power capacity cost factors of 3.087 cents per kWh for the residential class, 2.801 cents per kWh for the general service (non-demand) class, 2.366 cents per kWh for the general service (demand) class, and 2.366 cents per kWh for the lighting class.[15] These base combined fuel, environmental, DERP Avoided Capacity and PURPA Avoided Capacity cost factors are not being adjusted in this case and are equal to the total of the fuel and environmental cost factors by customer class approved by the Commission in Docket No. 2018-1-E, as well as all other riders approved by the Commission. The rates set forth in **Exhibit B** are designed to increase annual revenues from South Carolina retail operations by $59 million or a 10.3 percent average increase in rates, based on the test year of the twelve month period ending December 31, 2017 adjusted for known changes.

49. The Proposed revenue increase is distributed among classes of customers by increasing the rate schedules as follows: 12.5 percent for the residential class, 14.5 percent for the small general service class, 6.7 percent for the medium general service class, 9.6 percent for the large general service class, and 6.3 percent for the outdoor lighting class. The different percentage increases for customer classes reflect the allocation of the rate

[15] The General Service (Demand) class also includes a rate of $0.89 per firm kilowatt of billing demand. These rates exclude gross receipts tax and utility assessments.

increase based on the overall rate of return. The Company proposes to modify certain rate schedules to reflect more accurately the cost of service and to consolidate and cancel certain rate schedules.

50. The rates set forth in **Exhibit A** are unjust and unreasonable because they do not allow the Company the opportunity to earn a fair rate of return. In Order No. 2016-871, the rates were set based on a 10.1 percent return on common equity. The overall rate of return on rate base was set at 7.2 percent. During the twelve month period ended December 31, 2017, as adjusted for known changes, the rate of return on South Carolina retail rate base, as shown on **Exhibit D**, was only 4.1 percent.

51. The exhibits attached to this Application are as follows:

- **Exhibit A**. The schedule of the Company's electric rates and charges in effect and on file with the Commission at the time of filing this Application, which the Company seeks to increase.
- **Exhibit B**. The schedules of electric rates and charges the Company proposes to put into effect on June 1, 2019.
- **Exhibit C**. Current tariffs highlighting all changes requested in the proposed schedules.
- **Exhibit D**. The financial data for the 12-month period ended December 31, 2017, filed in compliance with 26 S.C. Code Ann. Regs. 103-823.
- **Exhibit E**. The schedules of Phase 1 and Phase 2 rate changes to reflect rate changes to recover known and measurable costs being incurred for the proposed Grid Improvement Plan.

DE Progress proposes that all accounting and pro forma adjustments set forth in the attached exhibits be adopted in this proceeding for ratemaking and reporting purposes.

WHEREFORE, DE Progress requests the Commission approve the electric rates and charges filed as **Exhibit B**, effective June 1, 2019, as indicated in the tariffs filed in this case, as well the rates filed in **Exhibit E**, effective 12 and 24 months subsequent to the rates and charges in **Exhibit B** going into effect; that the Commission approve the Company's accounting order and program approval requests described in this Application; and that the Commission grant DE Progress such further, different, or other relief as may be just and reasonable.

This the 8th day of November, 2018.

Heather Shirley Smith

Heather Shirley Smith
Deputy General Counsel
Duke Energy Progress, LLC
40 W. Broad St., Suite 690
Greenville, SC 29601

VERIFICATION

STATE OF SOUTH CAROLINA)
)
COUNTY OF GREENVILLE)

KODWO GHARTEY-TAGOE, being first duly sworn, deposes and says:

That he is President of Duke Energy Progress-South Carolina; that he has read the foregoing Application, and knows the contents thereof; that the same is true as to matters stated therein on information and belief, and as to those matters he believes it to be true.

Kodwo Ghartey-Tagoe

Kodwo Ghartey-Tagoe

Sworn to and subscribed before me

This 8th day of November, 2018.

Jacqueline Wilson

Notary Public

My Commission Expires: 8-27-2028

Jacqueline Wilson
NOTARY PUBLIC
State of South Carolina
My Commission Expires
August 27, 2028